GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1362
ANSWERED ON:07.03.2008
PHASING OUT OF CST
Ahir Shri Hansraj Gangaram;Verma Shri Ravi Prakash

Will the Minister of FINANCE be pleased to state:

(a) whether the issue of payment of compensation to the States for their revenue loss due to phasing out of Central Sales Tax has been worked out;

(b) if so, the details in this regard and if not, the reasons therefor;

(c) whether the issues relating to Value Added Tax (VAT) have also been resolved in this regard; and

(d) if so, the details thereof?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a) & (b) A consensus had been arrived at between the Centre and the States that the CST should be phased out in 4 steps, i.e. reducing the CST rate from 4% to 3% w.e.f. 01.04.2007, from 3% to 2% w.e.f. 01.04.2008, from 2% to 1% w.e.f. 01.04.2009 and eventually abolishing the tax on 31.03.2010. A package of compensation to the States for revenue loss on account of phasing out of the CST has also been worked out for the year 2007-08. As per the package, the States shall be compensated for CST reduction from 4% to 3% through a combination of non-monetary and monetary measures, that include abolition of Form-D, levy of VAT on Tobacco @ 12.5% by States, transfer of tax on identified services to the States, and budgetary support in case these measures prove inadequate to fully cover the loss.

(c) & (d) The Central Government has made the enabling provisions for levy of VAT on Tobacco and Tobacco products. The Empowered Committee of State Finance Ministers has agreed that VAT on Tobacco and Tobacco products be imposed at 12.5% VAT rate from 01.4.2007.